STATE DOCUMENTS

A Primer

on

State and Local

Taxation

by

John H. Wicks

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PART 1

A PRIMER ON STATE AND LOCAL TAXATION

by

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A staff paper submitted through the Tax Study Task Force to the Montana Legislative Council Subcommittee on Taxation.

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Taxes are continually in the public eye. Almost everybody pays them; virtually every session of every state legislature in the country has them under consideration.

However, public discussion and legislative consideration of taxes are best accomplished when all people concerned are aware of the basic economics of taxes--that is, the effects that various types of taxes may have on people and businesses. For instance, certain taxes--excise and property taxes, for example--are likely to have an effect on what people purchase. It may be that income taxes have some effect on incentives to work. The various taxes cost some people more than others; for example, auto license fees are largely borne by motorists, property taxes by property owners, and so forth.

Public opinion probably tends to be reflected in legislative action in a state. When this opinion is based on economic knowledge, it is more likely to produce effective legislation than when it is based on myths or suppositions. Likewise, with announcements on taxation made by candidates for public office. And, of course, economic knowledge is a desirable attribute for those candidates elected.

Thus, the purpose of this discussion is to outline briefly the economics of taxation as it applies on the state and local levels in the United States. First, it discusses in general terms the three basic components of the economics of taxation: the effects that taxes may have on the economic decisions of individuals and businesses and thus on the economy, ways to determine who bears the burden of taxation, and the costs involved in the administration of and the compliance with tax laws. Then, the article considers each major kind of tax levied on the state and local level in the nation from the viewpoints of its effects on individual and business decisions, distribution of its burden, and its administrative and compliance costs.

Each term peculiar to the field of public finance or taxation is defined as it is used. Terms defined are italicized when introduced. In general, the terms and analysis presented in this article on state and local taxation apply also to taxation by the federal government.

ECONOMIC ANALYSIS AND EVALUATION OF TAXATION

Functions of State and Local Taxation

On the state and local level, the basic purpose of taxation is simply to raise the funds to finance governmental expenditures. Taxation at the state and local level as well as the federal level distributes the burden of governmental economic activity. Burden (as we use it in this discussion) refers to the reduction in the private purchasing power possessed by different people as a result of taxation.

This burden is not necessarily borne only by the person who is legally obligated to remit a tax to the government. Such a person is said to bear the impact of a tax. He may, however, be able to pass part or all of the tax on to someone else. This process is called shifting. For example, at least part of the six cents per gallon tax on gasoline in Montana is passed on to the consumer by the seller. Thus, the gasoline dealer bears the impact of the tax, but he is able to shift its burden to the consumer. When individuals who purchase gasoline have no further place to shift the tax, they are said to bear the incidence of the tax.

This discussion of tax burden does not necessarily mean that governmental collection of taxes and subsequent expenditure of funds places an "oppressive load" on the economy. The opposite should be the case. To be justified, each dollar spent on governmental activities should provide more satisfaction to society than would have been provided had the dollar been left in private hands to be spent. What burden does mean is that dollars spent by state and local governments must be obtained from someone. Each dollar's worth of tax incidence borne by the individual cuts down his own private purchasing power by one dollar. He is thus burdened to the extent that he can buy one dollar less worth of goods than he could if he had not been required to pay the tax. However, if society is not at least as well off by spending that dollar governmentally than it would have been if the taxpayer had been left with his dollar to spend, then the collection and expenditure of that tax dollar results in some social loss.

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1. While the federal government can create money and engage in continuing deficit finance, the states lack these powers and are thus more limited in the handling of their financing.

Tax Equity Considerations

Tax burden is one viewpoint from which taxation can be analyzed. Various taxes affect the purchasing power of individuals and groups differently. For instance, the federal personal income tax bears much more heavily on a bachelor who has an income of $10,000 a year than on a man with seven children who has the same income. A cigarette tax bears quite heavily on cigarette smokers, but leaves nonsmokers unaffected.

Taxes usually redistribute purchasing power. The distribution of income or purchasing power refers to the amount of spending power possessed by each individual within an economy. A tax which bears more heavily on one individual than another takes more of the spending power from the one than the other, and quite obviously changes the distribution of the spending power. A legislature determines this distribution by using its own "value judgments," and much of the disagreement over the fairness of taxation has to do with how it affects the distributional pattern.

It is almost universally agreed in our society that taxes should be "fair" or equitable. But there is not this agreement about what kind of taxation is fair and what kind is unfair. If one feels that public policy should be decided on the basis of majority rule, then knowledge of public opinions concerning tax fairness accompanied by knowledge of the distribution of tax burden is vital to those who make tax policy. Where there is considerable disagreement about what is fair, those who make policy need definition of the issues involved.

Let us begin with a value judgment that is very generally accepted: namely, "equals" should be treated equally. For example, most people feel that two individuals, each of whom has the same amounts of income, wealth and financial responsibilities, ought to pay equal amounts in income taxes. This sounds simple and is a good working rule, but to determine who is receiving "equal" treatment and who is not is something of a problem. Probably a number of aspects of our existing tax system violates this "equals should be treated equally" viewpoint. Some of the details of this matter will be mentioned later.

Possible Criteria for Taxation

The tax treatment which should be given to people who are not in equal circumstances finds much less widespread agreement.

How should people who differ in income, financial responsibility, wealth or amount of consumption be taxed? The two most commonly suggested criteria are benefits received from governmental services--such as education and highway usage--and ability-to-pay--from such disparate sources as salary, "unearned" money from rental property, unrealized capital gains, or the profits from a farm or business. Clearly there are fertile grounds for disagreement.

We can think of taxes as payments for the benefits received by the public for governmental services. However, to base the distribution of tax burden according to the benefits received by any one person is generally impractical. First, it is impossible to measure the benefit obtained by any one individual from most governmental services, because the benefits from most governmental activities are collected by groups rather than individuals. In fact, this receipt of benefit by groups--often all of society--is the very justification for most governmental activity. Society apparently accepts such activities as being desirable. However, schools, prisons, and welfare, for example, obviously would not be provided in the desired quantity or quality if they were not undertaken governmentally. Imagine national defense organized and paid for by individuals. Even if we could measure and apportion benefits received from governmental services, or if we assumed that the benefits occurred to everyone equally, it still would be difficult to use them as the basis for taxation, for a number of low-income people just could not afford their share. Should only three of a man's seven children go to high school because he can afford just this much tax? There are, however, certain existing taxes which are apparently justified on an individual benefit basis. Probably the best example is a motor vehicle user tax.

An alternate to the benefit basis of taxation is taxation based on an individual's over-all ability-to-pay. One obvious problem here is the determination of what measures should be employed to determine ability. The three major bases which can be taxed are income, consumption, and wealth. The arguments for taxing each are taken up in the next section.

Possible Measures of Ability to Pay Taxes

Income is normally described as the amount of money obtained by an individual (plus any increase--minus any decrease in his wealth position) during a period of time, say, in a year. He can spend this income, save it, or use it to pay taxes.

Thus defined, income is clearly the only new source from which a person can buy additional goods or services. It is on this basis that a great many people argue that income is the most appropriate measure of ability-to-pay.

Some people feel that the amount of an individual's consumption expenditure provides a better measure than income of his ability to pay taxes. Since consumption represents what a person takes out of the economy, and income measures what he puts in, a person's income adds nothing to his actual material standard of living until he spends it. However, unspent income does add to his financial security and may give him considerable satisfaction.

Others argue that wealth is the best measure of ability-to-pay. The implications of this viewpoint depend on the definition of wealth which is used. Wealth can be called the total of a person's assets less the amount he owes to others. From a broad viewpoint this should include the present total value of his future earning capacity from work. But this definition is not used for tax purposes in the United States because knowledge of the future would obviously be necessary to estimate a person's future earning capacity. The most commonly used definition of wealth, or net worth, is the money value of a person's property less the amount he owes to others. A tax on such a base bears more heavily on a person who waits a significant time between receiving and spending income than it does on a person who has the same total amount of income and spends it over a short period of time. For example, a person who receives and spends $5,000 this year for non-durables will pay no property tax on the $5,000; while a person who receives $5,000 this year and waits three years to spend half of it will pay property tax on that $2,500 for the three years--or will if the tax is accurately administered.

Differing possible measures of ability-to-pay achieve different over-all results. Which yardstick is most equitable? This is a value judgment. Even if general agreement on such a value judgment were available, there would still be the problem of whether the tax should be progressive, proportional, or regressive.

Progressivity, Proportionality, and Regressivity

To gear taxation to economic ability-to-pay, the law must determine the proper relationship between the amount of tax

and the tax base, which is the dollar amount subject to taxation. If an individual's economic ability increases more rapidly than the tax base, then a progressive tax is probably in order. A person with a yearly income of $20,000 may be able to afford more than twice as much tax as a person with a $10,000 income. When the percentage of a tax increases in a faster progression than the amount being taxed increases, a tax is called progressive. Our federal income tax is a progressive tax. For instance, a tax of $10 on a base of $100 and $30 on a base of $200 is a progressive tax. If it is felt that ability to pay a tax increases at the same rate as the base, then a proportional tax is appropriate. With a proportional tax, the base and the amount of tax change by the same percentage. For instance, a tax of $10 on a base of $100 and $20 on a base of $200 would be a proportional tax. A regressive tax is technically defined as one in which the percentage increases less rapidly than the base, for example, a tax of $10 on a base of $100 and $15 on a base of $200.

These definitions relate the percentage amount of the tax to the base of the tax. Such definitions presume that the base of the tax involved is an appropriate measure of economic ability. In practice, however, most people refer to a tax as being progressive, proportional, or regressive with respect to income rather than with respect to the actual base of the tax involved. Defined with respect to income rather than the tax base, a progressive tax is one in which the rate increases more rapidly than income as the taxpayer's income increases; a regressive tax does the opposite. A proportional tax increases at the same rate income increases. This latter system of definitions assumes that income, rather than wealth or consumption, is the appropriate measure of ability-to-pay.

Most people appear to feel that the ability to pay taxes increases more than proportionally as income goes up, and therefore that taxes should be progressive with respect to income.[2] However, such reasoning does not specify how progressive taxes should be nor whether income is the most appropriate base for taxation. If we realize that even these two questions are difficult to solve, it is easy to see that taxes which must be related to base dollar amounts other than income are even more

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2. This viewpoint generally reflects the opinion that the satisfaction received by a high-income person from his last dollar of income is less than the satisfaction a lower income person receives from the last dollar of his income. This opinion has often affected tax policy.

difficult to assess. It is possible, although often difficult, to make taxes other than income taxes progressive.

There are two ways of making a tax progressive with respect to the base of the tax. The first is to make the tax rate progressive; that is, to have the rates increase as the base increases. An example of a tax with progressive rates would be one of 10 percent on the first $1,000 of income and 12 percent on the second $1,000. The other method is to exclude some amount from the tax base. For example, assume that $1,000 of a person's expenditures per year was excluded from a two percent sales tax. Thus, the tax on $1,000 of spending per year would be zero, on $2,000 it would be $20, and on $3,000 it would be $40. These amounts of tax constitute zero percent, one percent, and one and one-third percent of the respective tax bases. In other words, the exemption would make the tax somewhat progressive.

Increasing the rate as the base increases will always make an income tax progressive. However, increasing the rate as the base increases may not result in progressiveness with respect to income if the base of the tax in question is not closely related to income, or if this base does not tend to increase as rapidly as income. For example, allowing a taxpayer to purchase a certain amount of cigarettes tax free might not make a cigarette tax progressive in terms of income, for the average low-income person spends a much larger percentage of his income on cigarettes than does the average high-income individual. Also it is almost impossible for a state to apply progressive rates to taxes on consumption, for it is very difficult to determine who spends how much for what.

The preceding discussion does not imply that unlimited progression is desirable. Neither does it mean that every tax within a system must necessarily be progressive for total taxation to be progressive, especially if the revenues collected from the nonprogressive taxes are comparatively low. For example, (see Table 1) a tax system consisting of an income tax which averaged $100 for families with $1,000 yearly income, and $350 for families with $2,000 yearly income, and a property tax averaging $50 and $80 respectively for families with these incomes could still be called progressive. If the measure of economic ability is based on income, the property tax is regressive, for it taxes five percent of a $1,000 yearly income but only four percent of a $2,000 income. Nevertheless, the total tax system would be progressive, for the

total tax liability of an average $1,000 income family would be 15 percent of income while it would be 21.5 percent for a family with $2,000 in earnings.

Table 1

A HYPOTHETICAL PROGRESSIVE TAX SYSTEM
WHICH CONTAINS A REGRESSIVE TAX

Income	Income Tax	Property Tax	Total Taxes	Total Taxes as a Percent of Income
$1,000	$100	$50	$150	15%
$2,000	350	80	430	21.5%

Tax Equity in Consumption and Employment

This discussion has described some methods of gearing of taxation to differences in ability-to-pay. However, there are also a number of taxes which bear upon different people differently, but do not reflect variances in ability-to-pay. In fact, the result may be the unequal treatment of equals. Some taxes may discriminate against the purchase of particular products or against certain types of employment.

A tax on the purchase of certain commodities is called a selective excise tax. Any such excise tax or system of excise taxes which applies to the purchase of some, but not all, commodities tends to penalize those consumers who want to purchase the taxed commodities. Obviously, they pay a larger amount of tax in proportion to their total consumption expenditures than those people who happen to prefer to spend a relatively larger portion of their income on untaxed items. Many people, including economists, feel that penalizing those who prefer taxed items is unfair, unless there is something bad about the taxed item. To many people, alcoholic beverages are such a commodity. It is often argued that the purchase of certain items is a good measure of ability-to-pay. However, in our society there are very few items which are purchased only by the wealthy, or which are not purchased by some poor people.

Similarly, any tax which imposes a burden on the production of a particular item tends to penalize both the purchasers of that item and those whose livelihood depends on the production

of it. For example, a tax on the gross receipts of companies producing phonograph records would result in a higher tax burden on the production of this product than most other commodities. Undoubtedly, at least part of this tax would be shifted on to consumers in the form of higher record prices; thus people who happen to purchase greater than average amounts of records would be penalized. Furthermore, higher prices for records would probably mean fewer purchases. As a result, not only the income of stockholders in recording companies but the income of people working in the recording industry would quite likely be reduced. If the tax could not be shifted on to consumers, its burden would fall directly on workers in the industry.

Taxes affecting certain types of occupations more heavily than others may also be criticized from an equity viewpoint. The record keeping costs connected with a number of taxes probably affect those who are self-employed much more seriously than other taxpayers, for example; and in some occupations certain costs connected with making a living may not be allowed as deductions from federal income taxation. This is often true in the professions where a high standard of dress and living is necessary to attract clientele, but is not a deductible expense.

While progressivity, regressivity and proportional taxation are important criteria to those paying taxes, tax lawmakers have other vital factors to consider, especially the effects of taxes on people's economic behavior and the administrative and compliance costs of taxes.

Effects on Economic Behavior

The second general viewpoint from which taxation can be meaningfully analyzed is the effect that it may have on economic behavior. A tax may seriously alter consumption patterns, the availability of various types of productive resources, and/or the methods of production used by business firms. Under normal circumstances, economists accept the patterns of consumption and production provided by the price system under free competition as approximating the optimum. Any alteration of these patterns can be thought of as a deviation from the optimum situation. In the following paragraphs, we will analyze these deviations more specifically.

In general, taxes can have two separate types of effects on purchasers if they are partly or wholly shifted from the seller to the buyer. Economists call them the substitution effect and the income effect. The substitution effect tends to

apply when some commodities are taxed more heavily than others. Because taxed items will have become relatively more expensive compared to untaxed items, consumers may begin to substitute some of the untaxed items for the taxed. For example, if oleomargarine is taxed and butter is not, some people are likely to buy more butter and less margarine. The income effect refers to the fact that taxes which are shifted make the goods involved more expensive and thus reduce the total purchasing power of the consumer, just as a reduction in his income would. As a result of this effect, a person is likely to reduce the amount he spends for other, untaxed products. However, with his lower standard of living there may be a few so-called "inferior goods"--such as potatoes and stew meat--for which he may increase his expenditures.

Due to the substitution effect, with most goods, the quantity purchased varies inversely with their prices, although this relationship is stronger for some goods than others. Taxes which apply to certain items but not others tend to raise the price of the taxed items higher than the untaxed; and consumers may begin to substitute untaxed items for the taxed. For instance, a selective excise tax which raises the price of photographic film is likely to lead a potential buyer to reduce the amount of film he buys and use the money for some other item, such as picture post cards, a new coat, or a ski trip. Thus, taxation may cause an artificial distortion of consumption and therefore production away from taxed items in favor of nontaxed ones. Economists generally agree that in a free enterprise economy, the absence of such restrictions will result in the production of those goods and services in those quantities which will provide the greatest possible amount of satisfaction to consumers. Therefore alteration of consumption and production patterns as a result of taxation can be assumed to reduce total consumer satisfaction.

The incentives as well as the consumption patterns of individuals may be influenced by taxation. A tax might influence a person to work less, for taxes reduce spending power, but may not affect the enjoyment one may receive from leisure. On the other hand, if a given standard of living were important to him a higher tax might make him work longer; he would have to work longer to be able to purchase a given amount of goods. If certain types of employment were taxed more heavily than others, a person might be influenced to work in less heavily taxed occupations. For instance, if self-employed people were not allowed to deduct all legitimate expenses from their income

tax base, some people might be influenced to work for someone else rather than go into business for themselves. The same could be the case with respect to various types of business enterprise. In the same way a tax may encourage or discourage the taking of risks. For instance, the federal personal income tax gives favorable treatment to capital gains income, a type of income that often occurs as a result of risky investment. Thus risky investments likely to result in capital gains are encouraged, as are investments in oil industries where the depletion allowance provides a means of earning tax-free income.

Taxation may also affect production methods used by business firms. Heavily taxed methods are likely to be discouraged. For instance, if the property taxes on capital goods and inventories are very high, but payroll taxes are relatively low, the use of more workers and less capital equipment is likely to be favored. Since business firms wish to be profitable, it can be expected that they would normally use the most efficient production methods in the absence of taxation. Thus, any influencing of the method of production by taxation probably reduces over-all efficiency.

These possible effects of taxation on consumption patterns, incentives, or production methods are often referred to as the allocative aspects of taxation, for they influence allocation of resources in production. Allocation of resources refers to the relative quantities of labor, natural resources and capital goods used to produce various different items in an economy. Thus it is plain that tax laws must take this factor into account if they are to promote, rather than hinder, effective operation of the economy.

Administrative and Compliance Costs

The remaining major aspect of taxation to be considered is its administrative and compliance costs. Administrative costs are those costs borne by governments to levy and collect taxes. They vary from tax to tax, and some taxes are not feasible because of the administrative costs they would entail. For example, state taxation of intangible personal property (such as stocks and bonds) is very expensive to administer with any degree of accuracy. In fact, it may be impossible for a state or local government to do without the use of complex federal law enforcement facilities to provide certain information. Even then it would be very costly. On the other hand, the administration of a cigarette tax levied at the wholesale level is quite economical.

Compliance costs are those costs, both in time and money, borne by taxpayers to keep necessary records for taxation and actually to remit taxes to government. These costs are quite significant, for instance, for many personal income taxpayers. Property tax compliance costs are generally low. Since both of these costs involve the use of productive resources, mainly human labor (whether done by paid tax accountants or the time and energies of individual taxpayers), they could be thought of as allocative effects of taxation, but normally they are considered separately.

Adequate expenditures for administration are necessary if evasion is to be prevented. Evasion is undesirable both from a fairness viewpoint and because it causes loss of governmental revenue. However, it is generally accepted that administration and compliance costs should be kept as low as compatible with good administration, because such costs produce no corresponding happiness to society. Tax collection is seldom thought of as a beneficial governmental service, nor is anyone made happy when it takes him a long time to fill out his personal income tax return.

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As we have pointed out, the three basic viewpoints from which taxation can be analyzed are equity considerations, effects on economic behavior, and administrative and compliance costs. Equity refers to the fairness with which the tax burden is distributed. Changes in economic behavior (sometimes called just economic effects) refer to the effects that taxation may have on consumption patterns, availability of various types of productive resources, and methods of production. Administrative and compliance costs are those costs borne by governments and individuals respectively to collect and pay taxes.

REVIEW OF MAJOR TAXES LEVIED IN THE UNITED STATES

The major taxes collected by state and local governments in the United States are property, personal income, corporate income, general retail sales, selective excise, highway user taxes, and death duties. Figure 1 shows the amount and portion of aggregate state and local tax revenues in the United States contributed by each of these tax sources in 1962, the latest year for which complete data is available. This section briefly reviews the nature of each of these taxes in terms of equity, economic effects, and administration and compliance costs.

Property Taxation

Property taxation was at one time the source of most state and local governmental revenue, and still provides about 90 percent of the revenues of local governments. While administrative costs of property taxation are not especially high, the actual administration of the tax usually produces considerable inequity because of difficulty in accurately assessing the taxable value of property. The base of this tax is the assessed value of property, which is normally supposed to be equal or proportional to current actual market value.[3] However, different types of property and different parcels of the same type of property are often assessed at different percentages of their actual value. For example, if two adjacent houses have the same current market value, but one is assessed at 100 percent and the other at only 50 percent, then the owner of the former will pay twice as much tax as the owner of the latter even though the houses are worth exactly the same.

From an equity viewpoint, there is also a question whether even accurately assessed property provides a close measure of ability-to-pay. The value of a person's property may be a measure of the benefit he receives from certain local governmental services, such as police and fire protection, but such services are only a small portion of the total. Financing the remaining services with property levies tends to distribute tax burden in a capricious manner. The amount of a person's property is often not closely related to his income. A person with six children is likely to have a fairly large house, but may not have a large income. Furthermore, the house may be highly mortgaged. Even so the property tax would apply to the full value of the home. On the other hand a person with a large income--and resulting economic ability--may spend most of it for services and other non-durables and thus pay little property tax. However, there is a tendency for property to be capitalized, that is taxes are

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3. Recent court decisions in some states have defended the proposition that assessed value should equal market value. In other states, the judicial rule is that assessments need be only the same percentage of true value for various items and parcels of property. As long as all property is assessed at the same percentage of market value, the actual percentage is usually immaterial, for the tax rate is determined yearly by dividing the amount of needed tax revenue by the aggregate amount of assessed property values. In Montana, the actual property tax base is a percentage of assessed valuation. This percentage varies according to type of property.

likely to reduce the market value of the property on which they are imposed. As a result, the buyer of a piece of property may not bear the burden of the taxes he pays on it, for the property's price may have fully capitalized the taxes.

From an economic effects viewpoint, property taxation probably tends to discourage the purchase of durables as compared with nondurables, since nondurables are not included within the tax base, whereas durables, such as automobiles and houses, are. Thus a property tax makes durables relatively more expensive as compared with other goods. The same type of situation holds true with those methods requiring large amounts of capital investment, called capital-intensive production methods. Property taxation does not apply to the use of labor, whereas it does apply to buildings, machinery, and inventories. Therefore, production methods using relatively large quantities of taxed items become more expensive and are discouraged as a result of the property tax. Taxation of land itself, however, may encourage land use and affect the nature of its use.

In order to comply with the laws of property taxation, a taxpayer normally needs only to pay the bill submitted to him by the county treasurer. Only when a person desires to appeal the valuation of his property for tax purposes is compliance likely to take much time or money. Therefore, compliance costs of property taxation may be said to be low.

Income Taxation

Since the base of the personal income tax is each individual's yearly net, or taxable, income, it is easy to make the tax progressive with respect to income. This can be done by the use of exemptions or progressive rates. For example, the first $1,000 of income may be exempted; or, alternatively, a rate of 10 percent on the first $1,000 of income and 15 percent on the second $1,000 may be levied; still a third possibility is to employ both devices simultaneously. Since it is quite generally agreed that economic ability to pay taxes increases progressively as individual income goes up, the ease with which the tax can be made progressive is probably one reason it is so widely accepted as a tax.

Nevertheless, loopholes in the tax base can offset progressivity in the rate structure, as is the case in considerable degree in the United States. Certain provisions found in the federal and some state income taxes, such as the favorable

treatment given to capital gains and the depletion allowance structure, do benefit some individuals much more than others and, therefore, are often questioned from a fairness or equity viewpoint. These provisions are important examples of loopholes which are mainly used by people with high incomes and which thus significantly reduce progressivity. Deductions, which are outlays made by or losses incurred by a taxpayer which he may subtract from his tax base, can make allowance for expenditures that may not add to the taxpayer's economic well-being, for example medical expenses. However, deductions may also tend to favor certain taxpayers who can deduct items which really add to their economic ability.

The tax may have some effect on incentives to work. There may be a number of other changes to economic behavior resulting from the tax. For example, the fact that the federal government does not tax the interest on state and local government bonds lowers the interest rate these governments must pay and may consequently encourage borrowing by them. The deductibility of business expenses may encourage the consumption of high-priced restaurant meals. Income tax compliance costs are quite high for business firms which must withhold taxes and submit them and information to the government, and for individuals who must compute and report their income. In addition, administration of certain aspects of the tax, for example the legitimacy of business expenses, is difficult.

It is difficult to analyze the equity of the corporation income tax since accurate information on certain factors is not yet available to economists. For example, we do not know with certainty if the corporate tax is shifted on to consumers in the form of higher prices. If the tax is shifted, it becomes a kind of sales tax which applies more heavily to some commodities than others, because corporate profits as a percentage of sales are higher in some industries than others. Such factors could mean that the tax tends to discriminate against consumption preferences and alter consumption patterns. If the tax is not shifted, its burden falls on those who were stockholders at the time the tax was imposed or increased. An argument made for the corporate income tax on the state level is that corporations should pay something for their state-granted privilege for existing as a legal entity, and income is the best measure of the benefit their franchise gives them. The tax may reduce business investment, both by reducing the rate of return after tax on a possible investment project and by reducing the amount of funds available for corporate retained earnings; but this again is a factor almost impossible to analyze (except by a crystal ball).

Sales, Excise, and Motor Vehicle User Taxation

A general sales tax is an excise tax levied at a uniform rate on the sale of all or most commodities or services sold at the retail level. Normally, such a tax is somewhat regressive because low-income families, on the average , spend a higher percentage of their income for consumption goods sold at retail than do high-income families. Granting each family a certain amount of tax-free expenditure or exempting food from taxation, or both, can eliminate this regressivity. Exempting food from taxation tends to eliminate regressivity because low-income families spend a much larger percentage of their income on food than do high-income families, but this exemption can be held to favor food producers to the detriment of other industries and connoisseurs of fine food as compared with other people. Subjecting things purchased by business firms to a sales tax could encourage the firms to utilize production methods using small amounts of taxed items, for example capital goods, and perhaps to substitute additional labor in their place. The compliance cost of a sales tax to retailers amounts to at least several percent of the amount of the tax, and unless retailers can completely shift the tax to consumers, it will be an inequitable burden to them. The more things included in the base of such a tax, the lower its administrative and compliance costs are likely to be.

Selective excise taxes are levies on the sale of particular commodities or services. There are two distinct types of them used on the state level, sumptuary taxes and so-called luxury taxes. (Some economists consider motor vehicle user taxes also to be excises. However, they are probably more meaningfully considered as a separate type of tax.) Sumptuary excises are taxes on goods presumed to be socially harmful. Liquor taxation is probably the best example. The consumption of liquor provides costs to society which are not borne either by the sellers or the producers--for instance, additional law enforcement costs. The major argument for the tax is that it compensates society for these costs; and in addition, the tax might lower the consumption of liquor and therefore the costs. Luxury excises are taxes on consumer goods such as furs, perfumes, or imported food items which only wealthy people are presumed to be able to buy. The trouble is that there are not very many such goods, and sometimes even poor people buy them. Furthermore, the tax penalizes those who prefer the taxed commodities or who work in the industries producing them. When a tax raises the price of certain items, it tends to distort consumption patterns by discouraging the buying of one type of goods as opposed to other commodities.

Motor vehicle fuel and license taxes are levies based on benefits received by the taxpayer from public roads. Motor fuel taxes approximate the actual amount of highway usage, and vehicle license fees tax potential use of roads.

Death Duties and Other Taxation

Death duties include estate taxes, which are levies on the net worth of the deceased, inheritance taxes, which are levies on the amount received by those receiving the bequests, and gift taxes, which attempt to eliminate tax evasion by people who give their wealth away before death. The most often stated arguments for such taxation are that death bequests improve the financial position of the beneficiaries and that taxation of such bequests helps to break up large accumulations of wealth. However, in some instances a death bequest represents no increase in the economic well-being of the donee, as in the case of a widow--nor do these taxes take account of the economic situation of the beneficiary. (Paupers are taxed the same as legatees or inheritors with a million dollars a year of other income). Death duties do not have an apparent major impact on economic behavior, although they may encourage such things as the purchase of additional life insurance or the keeping of a family-held business in more liquid form than would otherwise be the case. And they do, certainly, encourage the use of skilled lawyers to write wills minimizing the amount of liability, thus contributing significantly to the compliance cost of the tax.

The foregoing are the major state and local taxes found in the United States. There are others. For example, license fees are generally charges for a governmentally granted privilege or to cover the cost of regulation of the activity involved. Severance taxes are levied according to the amount of exhaustible mineral resources extracted from nature. The argument made for severance taxes is that mineral extraction reduces the natural wealth of a state, and therefore the public ought to be compensated for this reduction. A gross receipts tax is a tax on the gross sales of business firms. Such a tax is not closely related to ability-to-pay, and strongly favors vertical integration of firms. Vertical integration refers to the ownership of a number of different stages in the production process by one firm--for instance, manufacturing, distribution, and retailing. In a vertically integrated firm, the sales from the manufacturer to the wholesaler, and the wholesaler to the retailer would be eliminated, and thus the tax liability would be

reduced. A value-added tax on this firm would be approximately the same as a retail sales tax. However, if the products of other firms competed with this firm, the tax would erode the competitive condition of the taxed firm and bear little relation to ability-to-pay.

* * *

Tax Problems

The above tax-by-tax discussion is only a brief summary of currently available facts and analysis. However, there are also a number of questions concerning taxation yet unanswered by economists which should probably be mentioned. For instance, we lack empirical data -- that is, actual facts -- concerning the extent of tax shifting, the degree of various economic effects of taxes, and the compliance costs of particular taxes. Earlier we stated that each tax may be evaluated from the viewpoints of equity, economic effects, and administrative and compliance costs. These characteristics are often interrelated in ways that cause problems. A tax which may be desirable from one viewpoint may be objectionable from another. For example, an income basis of taxation may be deemed to be quite fair to the taxpayer, but it may have some undesirable over-all economic characteristics and be somewhat hard to comply with. In evaluating a tax, all such factors should be weighed, but the degree of weight is an unanswered question; indeed, it is the value judgment that produces the best taxation legislation. The balancing of the relative advantages and disadvantages of various taxes becomes especially important when new sources are needed, which is the case in many states and localities.

Growth in Governmental Activity

Since the 1930's, expenditures and taxes by virtually all governmental units have increased considerably. There are a number of reasons for the increase. Some of them can be thought of as inevitable; others are a matter of public choice. All of them are quite understandable, although individually one may or may not like some of them.

One of the most obvious reasons for the increase in the amount of governmental expenditure requiring tax financing has

been the increase in the general price level. During the past 25 years the average cost of living has more than doubled. The average cost of items purchased by governments has more than tripled during this time, thus requiring more tax revenue. The portion of the increase in taxation which corresponds to the increase in the price level really represents no increase in the scope of governmental activities, since the same activities merely have a higher dollar cost. Increasing population has been responsible for an increase in the scope of governmental expenditures and taxation. Educational expenditures have been especially responsive to the growth in population.

However, the importance of governmental expenditures in the economy has also increased in relative terms, that is governmental outlays have been comprising an increasing portion of total expenditures in the nation. Part of this relative increase can be attributed to greater problems facing government, such as increased urbanization, complexity of industrial technology, and use of motor vehicles. For instance, demand for police and fire protection and welfare expenditures seems to increase more than proportionately as urbanization occurs. Traffic problems caused by ever-increasing motor vehicle usage create an obvious demand for additional highways and superhighways. As a result of the widening spectrum of problems facing society, and because of a higher standard of living in the private sector of the economy, people have simply come to demand more and better governmental services. There has apparently been a greater recognition of the social benefits available from governmental services. This trend has been evidenced by the increasing public demand for such governmental services as highways, education, public health and welfare.

Intergovernmental Relations

The problem of financial relationships among federal, state, and local levels of government pertains both to expenditures and taxation. On the expenditure side, the primary consideration is what level of government is best suited to provide an activity. When economies of large scale operation exist, or when it is desirable to have uniform policy over a wide geographic area, there is a strong argument for having the activity involved governed on the state or federal level. When these economies are not of overriding importance, or when opinions differ from locality to locality concerning the amount of an activity

which is desirable or concerning the specific form which the activity should take, there is an argument for providing the activity on the local level to furnish the maximum amount of satisfaction possible. However, more and more the cost of the activity exceeds the revenues provided by traditional local and state tax sources. Administrative, as well as legal and political problems may make it difficult to increase taxes. Therefore, the aid of larger governmental units is often sought. Examples of such aid are help with the administration of local or state taxes by states or the federal government respectively, the sharing of revenues by large governmental units with the smaller units in which the revenues were collected, and grants-in-aid from large to smaller units of government. Grants-in-aid may or may not have strings attached; the latter practice tends to reduce the autonomy of local governmental units.

A further problem arises among the several levels of government when more than one level levies the same tax. For instance, the federal, a majority of state governments, and even a few local governments collect income and certain excise taxes. As a result, to figure out the total burden of a given type of tax or the total economic effects of it, it is probably necessary to include taxes at all levels in the analysis. Whether this means that federal, state, and local taxation must all be considered simultaneously is a matter of some controversy among economists. However, it is meaningful to analyze the tax structure of any one governmental unit by itself to the extent that this unit will exert little or no control over the tax structure of other units.

It is often alleged that comparisons of one state's level and patterns of expenditures and taxation with those of other states has important economic implications. The primary effect is said to bear on the location of industry and the rate of economic growth.

A third problem which involves inter-relationships among governmental units is treatment given to nonresidents by a state. One type of problem arises when a person lives in one state and works in another, and both states levy income taxes. Unless an arrangement is worked out, under which only one state taxes the income, or under which the state of residence gives credit for income taxes paid to other states by residents as Montana does, double taxation will result. Another question is how, and to what level, a state should tax nonresidents engaging in activities in the state. The degree to which taxation on nonresidents is fair is definitely a value judgment.

OUTLINE OF MONTANA TAXES

The present tax structure of the Montana state government consists of property, personal income, corporate income, sumptuary, motor vehicle fuel and license, inheritance, and severance taxes plus taxes on the gross receipt of various types of public utilities and transportation companies and an assortment of licenses fees. The basic provisions of the major taxes are as follows:

General property tax

base - taxable value of all property within the state (in Montana taxable value is a fraction of assessed value which depends upon the type of property involved).

rate structure - .6 percent, i.e., 6 mills for the state university system, .1 percent for bond retirement, .2 percent for the state general fund; additional levies of 1.05 percent and .9 percent respectively on the taxable value of sheep and other livestock are made to finance activities of service to the livestock industry, such as financing bounties for the destruction of predatory animals (NOTE: Less than six percent of property tax collections are made at the state level. However, local levies, which constitute the remainder of the collections, are influenced by state legislative action.).

Personal income tax

base - taxable net income per federal return, state income tax paid, and interest on state and local bonds less federal income tax paid, and interest on federal government securities with several other minor adjustments.

rate structure - 1.1 percent on the first $1,000 of taxable income, 2.2 percent on the second $1,000, 3.3 percent on the third $1,000, 4.5 percent on the fourth and fifth $1,000, 5.6 percent on the sixth and seventh $1,000, 7.9 percent on all taxable income in excess of $7,000 per year.

Corporation income tax (officially called the corporation license tax)

base - net income of the corporation earned within Montana, which is revenue less business expenses including interest on debt; if the corporation operates in states other than Montana, the percentage of its total sales, payrolls, and property occurring in Montana are used to estimate the portion of its total income which is earned in Montana, unless it is possible for the corporation to determine income from Montana operations alone, in which case, that figure is used.

rate - 5.25 percent.

Alcoholic beverage taxes

liquor - base: retail selling price.

rate: 20 percent.

beer - base: volume sold.

rate: $1.50 per 31 gallons.

(Also, license taxes ranging from $25 to $600 per liquor or beer retail or wholesale outlet.)

Cigarette tax - 8¢ per package of 20 cigarettes.

Motor vehicle fuel excises

gasoline 6¢ per gallon, diesel fuel 9¢ per gallon, liquid petroleum gas 6¢ per gallon; also license fees varying from $5 to $10 for automobiles, to $65 to $435 for trucks, trailers, and semi-trailers.

Inheritance tax

base - amount of bequest to each individual less varying exemptions which range from $20,000 for a widow and $2,000 for a child to none for aunts, uncles, first cousins, or less related people; all charitable contributions or contributions to the state of Montana or its political subdivisions are exempt.

rate structure - two to 32 percent, depending on amount of bequest and relationship of beneficiary to the deceased; e.g., for widows, husbands, and children the rate ranges from two percent on the first $25,000 to eight percent on amounts in excess of $100,000; for unrelated people the rates vary from eight percent to 32 percent over the same dollar amounts.

Severance taxes

base - oil and metals: gross value of production; other items such as coal and vermiculite; physical amount of production.

rates - oil: two to two and one-half percent of gross value; metals; up to one and one-fourth percent of gross values; other items; varying amounts, e.g., 5¢ per ton of coal produced in excess of 50,000 tons per year.

Gross receipts taxes

base - gross income from electric energy, telephone service, intrastate telegraph business, freight lines, and motor carriers.

rates - vary from one and one-fourth percent of gross income from electricity sales to five percent of freight line gross income; also, one-half of one percent per thousand cubic feet of natural gas distributed in the state.

Taxes in lieu of property taxes

insurance and express companies: a percentage of gross income from Montana business; sleeping car companies: a percentage of the value of their capital stock related to the amount of their total business done in Montana. There are certain other miscellaneous license fees applying, for example, to chain stores, retailers and wholesalers of cigarettes, insurance companies, and boats.

Table 2 presents a historical summary of the identity of Montana taxes. It shows when the emphasis of taxation shifted from property to income, consumption of various commodities, and certain other items. On the local governmental level in Montana almost all tax revenues come from the property tax.

Table 2

YEAR OF ORIGIN AND NUMBER OF YEARS IN EFFECT
OF MAJOR TYPES OF MONTANA TAXES

Type of Tax	Year of Origin	Number of Years Levied
Property	1863	102
Gross Receipts	1895	70
Inheritance	1897	68
Severance	1907	58
Corporate Income	1917	48
Motor Vehicle Fuel	1921	44
Alcoholic Beverages	1933	32
Personal Income	1933	32
Cigarettes	1947	18

Figure 1 shows the portion of the tax collections by the state of Montana contributed by each major type of tax. It can be seen that motor vehicle fuel and income taxes are currently the major revenue producers.

Figure 2 shows the same type of data as Figure 1 for all states aggregatively.

Figure 1

Total Tax Revenues Paid

for the State Government of Montana in 1964

(to the nearest thousand)

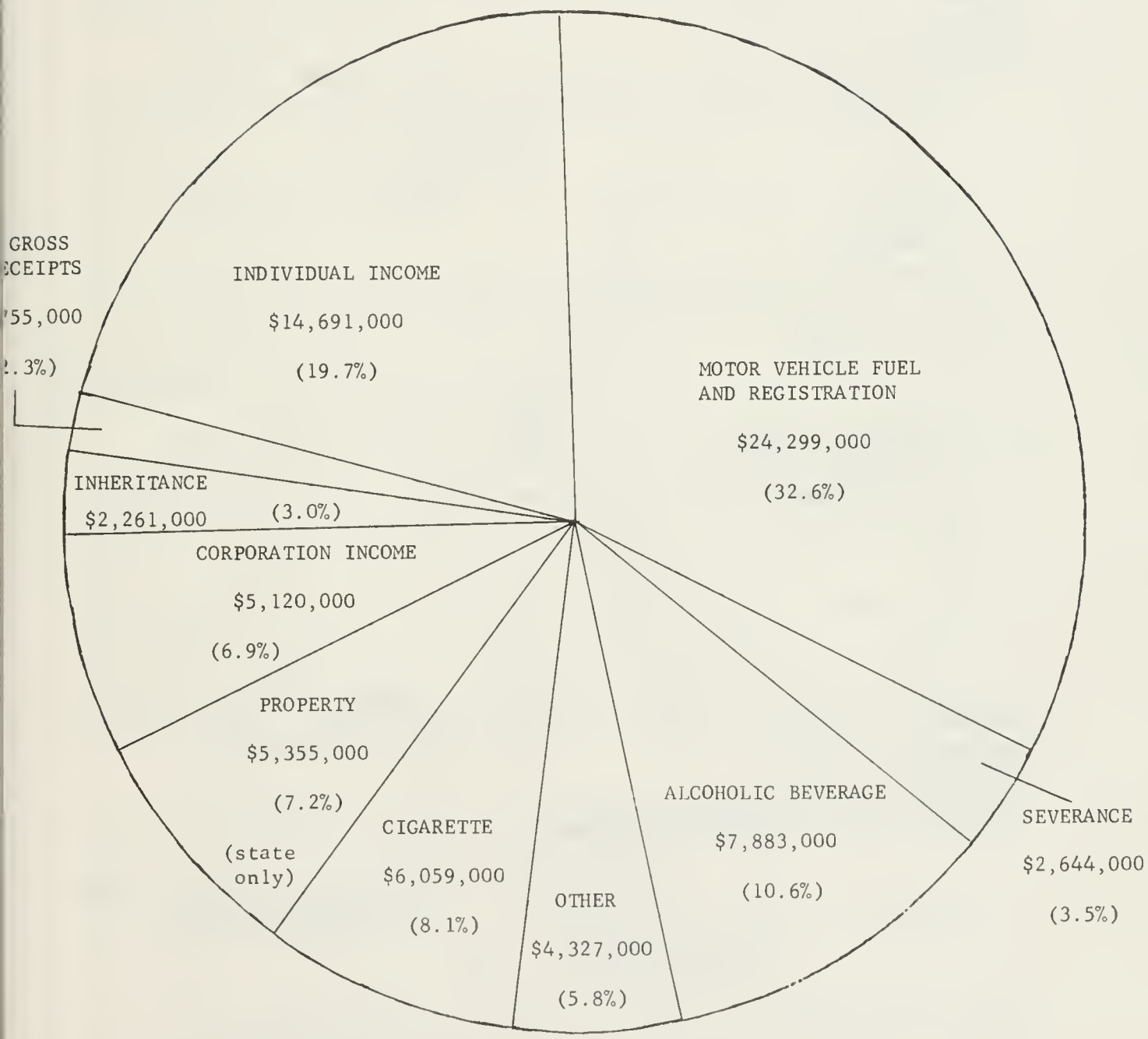
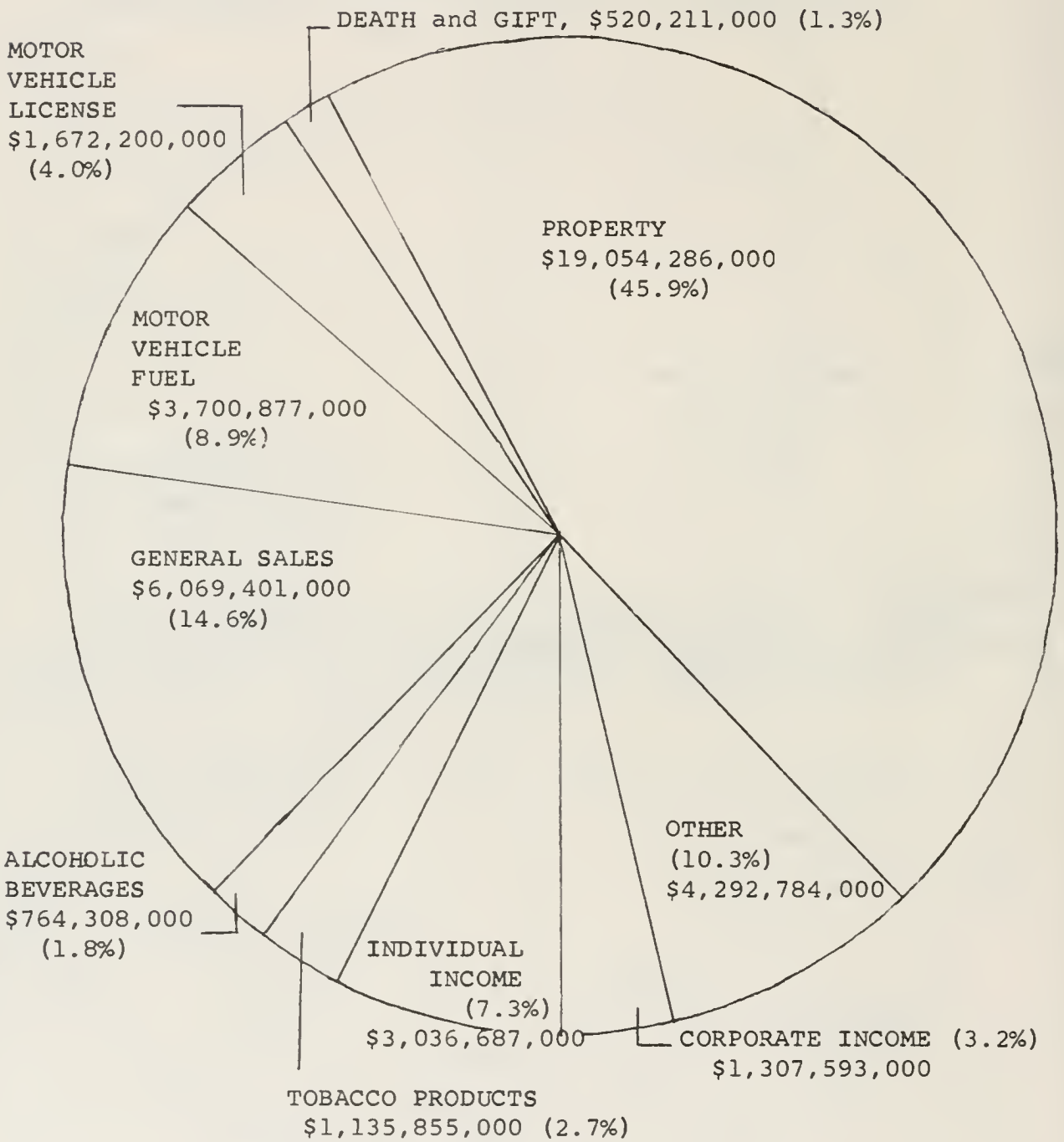


Figure 2

Aggregate Tax Revenues Recieved by State and Local Governments in the United States, 1962


DEATH and GIFT, $520,211,000 (1.3%)
MOTOR VEHICLE LICENSE $1,672,200,000 (4.0%)
PROPERTY $19,054,286,000 (45.9%)
MOTOR VEHICLE FUEL $3,700,877,000 (8.9%)
GENERAL SALES $6,069,401,000 (14.6%)
OTHER (10.3%) $4,292,784,000
ALCOHOLIC BEVERAGES $764,308,000 (1.8%)
INDIVIDUAL INCOME (7.3%) $3,036,687,000
CORPORATE INCOME (3.2%) $1,307,593,000
TOBACCO PRODUCTS $1,135,855,000 (2.7%)

Source: United States Bureau of the Census, 1962 Census of Government, Vol. 4, No. 4.

APPENDIX: Glossary of Technical and Semi-technical Terms Often Used in Taxation and Public Finance Analysis.

ABILITY PRINCIPLE: The basing of taxation on economic ability-to-pay of the taxpayer.

ACCESSIONS TAX: A tax, the base of which is the amount of death bequests and gifts received by an individual during his lifetime.

ADJUSTED GROSS INCOME: The gross income of a taxpayer minus his business expenses as defined by federal income tax law.

ADMINISTRATIVE COSTS: Those costs borne by a government to levy and collect a tax.

ASSESSMENT: The process used to determine the fair market value of property for property tax purposes.

ASSESSED VALUATION: The value placed on property for tax purposes by the assessment procedure.

AVERAGING OF INCOME: Allowing an individual to use his average income over a number of years in computing his tax liability for each of these years, rather than his actual income in each of these years when his income fluctuates considerably.

AVOIDANCE: A taxpayer taking legal steps to lower his tax liability.

BENEFIT PRINCIPLE: The equity viewpoint that the amount of taxation paid by a taxpayer should depend on the benefit received by him from governmental services.

BLOCK GRANT: Funds transferred by one governmental unit to another on which there are no restrictions concerning the use of the funds by the receiving government.

BUILT-IN FLEXIBILITY: The property of a tax to vary inversely with income when the latter varies.

BURDEN OF TAXATION: (Same as INCIDENCE OF TAXATION) Refers to the individuals whose purchasing power is ultimately reduced as the result of a tax.

CAPITAL GAINS TAX: The special tax treatment given to capital gains, which are the difference between the realized sale value and the cost of an asset which was purchased and sold by a taxpayer in other than his normal course of business.

CAPITALIZATION OF A TAX: The change in the market value of an asset as a result of a change in the level of taxation applying to that asset.

CAPITAL LEVY: A tax on net worth, (i.e., assets minus liabilities of an individual) which is levied only once.

CAPITAL STOCK TAX: Tax on the stated, or par value, of the preferred and common stock of corporations incorporated or licensed within a state.

CIGARETTE TAX: An excise tax on the sale of cigarettes.

CLASSIFIED PROPERTY TAX: A property tax in which the assessed value of different types of property is multiplied by different percentages to determine taxable value of the property.

COMMERCIAL PRINCIPLE OF GOVERNMENT: The selling of governmental services at a price which covers all costs and thereby provision of that amount of service which people wish to purchase.

COMPLIANCE COSTS: Those costs borne by a taxpayer in keeping necessary records for and actually paying a tax.

CONDITIONAL GRANT: The transfer of funds by one governmental unit to another when the receiving governmental unit must comply with certain conditions in order to get the funds.

CORPORATE INCOME TAX: A tax, the base of which is income of corporations, i.e., revenues less business expenses.

DEDUCTION: An expenditure by an individual which he may subtract from his income in determining his taxable income.

DEPLETION ALLOWANCE: An amount which can be subtracted from taxable income to compensate for the reduction in the value of a mineral producing property as the mineral is extracted. It is a percentage of the gross sale value of the mineral with no account taken of the actual cost of the property.

DIRECT TAX: Most often defined as a tax borne by the individual on which it is levied.

DIVIDEND EXCLUSION: A provision under which a set amount of dividends income of an individual need not be reported for income tax purposes.

DIVIDEND PAID CREDIT: The reduction of a corporation's income tax liability by a portion of the dividends paid by it to reflect the personal income tax paid on these dividends.

DIVIDEND RECEIVED CREDIT: The reduction of an individual's income tax liability by a portion of the dividends income received by him to reflect the corporation income tax paid on the corporate income out of which the dividends were paid.

DUAL-USE COMMODITY: An item which can be used either for personal consumption or for business purposes and which therefore might be listed as a business expense by a taxpayer, but really be an item of his own personal consumption.

EARNED INCOME: Term used by some people to denote wage, salary and self-employment income as opposed to income from property, such as interest and dividends.

ECONOMIC EFFECTS OF TAXATION: Changes in the economic behavior of individuals or business firms as a result of a tax or tax system.

EQUALIZATION: The process of adjusting all assessed valuations within an assessment district up or down by some stated percentage by a central authority, for the purpose of making the percentage of assessed value to true value of property the same in this district as in other assessment districts.

EQUITY OF TAXATION: The fairness of taxation.

ESTATE TAX: A tax on the net worth of a deceased person.

ESTIMATED TAX: The estimation of an individual of his personal income tax for a year at the start of or during that year for the purpose of his making quarterly payments of the amount by which his tax liability will exceed the amount of tax withheld from his income.

EVASION: The use of illegal means to escape tax payment.

EXEMPTION: A stated amount of income, regardless of how spent, which is excluded from taxable income.

EXPENDITURE TAX: A tax on the amount of spending by an individual during a year.

EXCESS PROFITS TAX: An extra tax on the amount of income of a corporation which exceeds a stated amount, or represents a rate of return on invested capital in excess of some percentage figure.

EXCISE TAX: A tax on the sale of one or more commodities.

FRANCHISE TAX: A tax levied on business firms for the privilege of operating as a corporation, or engaging in a certain type of business.

GASOLINE TAX: An excise tax on the sale of gasoline.

GENERAL EXCISE TAX: A tax on the sale of most or all commodities.

GENERAL SALES TAX: (Same as a SALES TAX) A tax of some percentage on the retail sale value of all or most commodities and services.

GIFT TAX: A tax on the amount of gifts given by an individual during his lifetime to prevent avoidance of estate or inheritance taxation.

GROSS INCOME TAX: A tax on the total income of individuals and business firms.

GROSS RECEIPTS TAX: A tax on the total receipts of business firms.

IMPACT: Refers to the identity of the individual or business firm who has the legal liability to pay a tax to the government, whether he actually bears his burden or not.

INCIDENCE: The identity of the individual or group which bears the actual burden of a tax.

INCOME ELASTICITY OF A TAX: The percentage change in the amount collected from a tax, divided by the percentage change in national or personal income between one time period and a subsequent time period.

INCOME SPLITTING: The process of allowing a husband and wife to pool their incomes, and then assume that each earned half of the total amount for personal income tax purposes.

INDIRECT TAX: Most generally thought of as a tax, the burden of which does not fall upon those who bear its impact.

INHERITANCE TAX: A tax on the amount of a death bequest received by an individual.

IN LIEU TAX: A tax which is a substitute for property taxation.

INTANGIBLES: Items of property which are not physical assets in and of themselves, but rather representations of ownership, such as stock, bonds and bank accounts.

INVESTMENT TAX CREDIT: A portion of certain investment expenditures made by business firms which may be subtracted from that firm's income tax liability.

LIQUOR TAX: An excise tax on the sale of alcoholic beverages.

LOCKED-IN EFFECT: The possibility that an individual may not be willing to sell securities which have increased in value for the reason that he would have to pay income tax on the capital gain involved, whereas he can postpone the tax by retaining ownership of the securities.

MASSACHUSETTS FORMULA: A procedure for estimating the amount of an interstate corporation's income which is earned with one state. It assumes that that portion of income is the same as the average of the corporation's total property, sales and payroll which are located in that state.

MILL LEVY: The rate of a property tax expressed as number of mills--a mill is one-tenth of one cent, or one-thousandth of one dollar--per dollar of taxable value of property.

MONEY AND DEPOSITS TAX: Property taxation applying to cash, checking accounts and savings accounts.

MULTIPLIER: The ratio of the ultimate change in national income, divided by change in some expenditure which caused the change in national income.

NET WORTH TAX: A tax on the net worth, i.e., assets minus liabilities, of an individual or business firm.

OPTIONAL DEDUCTION: A flat amount of dollars or percentage of income that a taxpayer is allowed to deduct from income for income tax purposes in lieu of itemizing allowable deductions.

PAYROLL TAX: A tax on the wages and salaries of a business firm, normally to finance such things as social security and unemployment compensation benefits.

PERSONAL DEDUCTION: An expenditure by an individual for nonbusiness purposes which he is allowed to subtract from taxable income for personal income tax purposes.

PERSONAL INCOME TAX: A tax on the income of individuals.

PERSONAL PROPERTY: Property owned by individuals and business firms other than real estate.

PHYSICAL INGREDIENT RULE: The exemption from sales taxation of items purchased by firms which become physically embodied in the product of that firm.

PROGRESSIVE TAX: A tax, the liability of which increases more rapidly than the base as the latter goes up. An alternate, often used definition is a tax, the amount of which goes up more rapidly than the taxpayer's income as the latter increases.

PROPERTY TAX: A tax on the gross market value of property as determined by assessment. Usually, both real and personal property are included in the tax base.

PROPORTIONAL TAX: A tax, the liability of which increases by the same percentage as the base as the latter increases. An alternate definition, which is often used, is a tax, the amount of which increases by the same percentage as taxpayer income as the latter increases.

RATE STRUCTURE: The percentage rate of taxation which applies to various magnitudes of the base of the tax.

REAL PROPERTY: Land and improvements attached thereto.

REDISTRIBUTION OF INCOME: The taking away from, or adding to the purchasing power of certain individuals or groups more than others.

REGRESSIVE TAX: A tax, the amount of which increases less rapidly than the base as the latter increases. An alternate, often used definition is a tax, the amount of which increases less rapidly than taxpayer income as the latter increases.

RESOURCE ALLOCATION: The various amount of human resources, capital goods and natural resources used to produce various different items.

SALES TAX: A tax of some percentage on the retail sale of all or most commodities and services.

SELECTIVE EXCISE TAX: A tax on the sale of one or a few specified commodities or services.

SEPARATION OF SOURCES: A system of taxation wherein different levels of government do not tax the same object. The goal is to allow each level adequate tax sources.

SEVERANCE TAX: A tax on the extraction of mineral resources from the ground.

SHIFTING: The process of passing the burden of a tax onto someone else by the payer of the tax to the government.

SOCIAL BENEFIT: Benefit received from a commodity or service by society as a whole, rather than any one individual.

SPECIFIC EXCISE TAX: A tax of a certain dollar amount per unit on the sale of a commodity, regardless of the value of that commodity.

SPENDING TAX: (Same as an EXPENDITURE TAX) A tax on the amount of spending by an individual during a year.

STANDARD DEDUCTION: (Same as OPTIONAL DEDUCTION) A provision by which a taxpayer can subtract a stated dollar amount, or percentage of his income from income in determining taxable income.

SUMPTUARY EXCISE: A tax on the sale of a commodity which is deemed to be bad or harmful to society.

TANGIBLE PERSONAL PROPERTY: Physical property other than real estate. Physical property means actual items, rather than representations of ownership such as stocks and bonds.

TAX BASE: The dollar amount of item which is subject to taxation.

TAX CREDIT: An amount which can be subtracted directly from the actual tax liability of a taxpayer.

TAX SUPPLEMENT: An additional amount added to the rate of a tax of one governmental unit and collected by that government for some other governmental unit.

TAXABLE VALUATION: The portion of the assessed value of property which is subject to taxation in Montana. The portion varies according to the type of the property involved.

TON-MILE APPROACH: Taxation of trucking on the basis of the number of tons multiplied by the number of miles over which they are carried. The rates of such taxation normally become progressively higher as the weight capacity of the truck involved increases.

UNDISTRIBUTED PROFITS TAX: A tax on the retained earnings of a corporation.

USE TAX: A tax on the use of an item within a state which was purchased within another state. Such taxation is used by states levying sales taxes to prevent the avoidance of the tax by purchasing items outside of the state. The rates of the use tax are invariably the same as of the sales tax.

VALUE ADDED TAX: A tax on the difference between the final sale value of the products of a firm, and the amounts paid by that firm to other firms for items used in producing its products.

WITHHOLDING: The process of deducting an amount approximating a person's income tax liability from his wages by his employer, who in turn remits this amount to the government.

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